

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | | | | | |
|--|--|--------------|--|--|--|--------|--|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | | | Local Government Name | | County | |
| Audit Date | | Opinion Date | | Date Accountant Report Submitted to State: | | | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | |
| Reports on individual federal financial assistance programs (program audits). | | | |
| Single Audit Reports (ASLGU). | | | |

| | | | | |
|--|--|------|-------|----------|
| Certified Public Accountant (Firm Name) | | | | |
| Street Address | | City | State | ZIP Code |
| Accountant Signature <i>Siegfried Crandall P.C.</i> | | | Date | |

Township of Fabius
St. Joseph County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended March 31, 2005

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INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Fabius, Michigan**

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Fabius, Michigan, as of March 31, 2005, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of Township of Fabius, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Township of Fabius, Michigan, as of March 31, 2005, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 15, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of April 1, 2004.

The budgetary comparison schedules, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Township of Fabius, Michigan
Page 2

The Township of Fabius, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Siegfried Crandall P.C.

October 5, 2005

BASIC FINANCIAL STATEMENTS

Township of Fabius
STATEMENT OF NET ASSETS
March 31, 2005

| | <u>Governmental activities</u> |
|--|---|
| ASSETS | |
| Current assets: | |
| Cash | \$ 1,285,049 |
| Investments | 1,268,650 |
| Receivables (net) | <u>177,121</u> |
| Total current assets | <u>2,730,820</u> |
| Noncurrent assets: | |
| Capital assets (net of accumulated depreciation) | <u>218,402</u> |
| Total assets | <u>2,949,222</u> |
| LIABILITIES | |
| Current liabilities - payables | <u>80,694</u> |
| NET ASSETS | |
| Invested in capital assets | 218,402 |
| Unrestricted | <u>2,650,126</u> |
| Total net assets | <u>\$ 2,868,528</u> |

See notes to financial statements

Township of Fabius
STATEMENT OF ACTIVITIES
Year ended March 31, 2005

| | | <u>Program revenues</u> | | <u>Net (expenses)</u> <u>revenues and</u> <u>changes in</u> <u>net assets</u> |
|---------------------------------------|-------------------|---------------------------------------|---|--|
| | <u>Expenses</u> | <u>Charges for</u> <u>services</u> | <u>Operating</u> <u>grants and</u> <u>contributions</u> | <u>Governmental</u> <u>activities</u> |
| Functions/Programs | | | | |
| Governmental activities: | | | | |
| Legislative | \$ 12,361 | \$ - | \$ - | \$ (12,361) |
| General government | 406,745 | 7,834 | - | (398,911) |
| Public safety | 161,721 | 77,233 | - | (84,488) |
| Public works | 39,163 | - | 6,201 | (32,962) |
| Health and welfare | 11,651 | - | - | (11,651) |
| Community and economic development | 36,970 | 36,053 | - | (917) |
| Recreation and culture | <u>46,000</u> | <u>-</u> | <u>-</u> | <u>(46,000)</u> |
| Total governmental activities | <u>\$ 714,611</u> | <u>\$ 121,120</u> | <u>\$ 6,201</u> | <u>(587,290)</u> |
| General revenues: | | | | |
| Taxes | | | | 2,136 |
| State grants | | | | 221,390 |
| Investment income | | | | 45,954 |
| Refuse royalties | | | | 404,587 |
| Other | | | | <u>628</u> |
| Total general revenues | | | | <u>674,695</u> |
| Change in net assets | | | | 87,405 |
| Net assets - beginning | | | | <u>2,781,123</u> |
| Net assets - ending | | | | <u>\$ 2,868,528</u> |

See notes to financial statements

Township of Fabius
BALANCE SHEET - governmental funds
March 31, 2005

| | <u>General</u> | <u>Capital Improvement</u> | <u>Total governmental funds</u> |
|--------------------------------------|-------------------|--------------------------------|---|
| ASSETS | | | |
| Cash | \$ 796,633 | \$ 488,416 | \$ 1,285,049 |
| Investments | - | 1,268,650 | 1,268,650 |
| Receivables | <u>177,121</u> | <u>-</u> | <u>177,121</u> |
| Total assets | <u>\$ 973,754</u> | <u>\$ 1,757,066</u> | <u>\$ 2,730,820</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Payables | \$ 80,694 | \$ - | \$ 80,694 |
| Deferred revenue | <u>6,580</u> | <u>-</u> | <u>6,580</u> |
| Total liabilities | 87,274 | - | <u>87,274</u> |
| Fund balances - unreserved | <u>886,480</u> | <u>1,757,066</u> | 2,643,546 |
| Total liabilities and fund balances | <u>\$ 973,754</u> | <u>\$ 1,757,066</u> | |

Amounts reported for *governmental activities* in the statement of net assets (page 6) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 218,402

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 6,580

Net assets of *governmental activities* \$ 2,868,528

See notes to financial statements

Township of Fabius

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
governmental funds**

Year ended March 31, 2005

| | <u>General</u> | <u>Capital Improvement</u> | <u>Total governmental funds</u> |
|------------------------------------|-------------------|--------------------------------|---|
| REVENUES | | | |
| Taxes | \$ 2,136 | \$ - | \$ 2,136 |
| Licenses and permits | 54,585 | - | 54,585 |
| State grants | 227,728 | - | 227,728 |
| Charges for services | 66,398 | - | 66,398 |
| Interest, rentals, and royalties | 442,064 | 8,477 | 450,541 |
| Other | 20,010 | - | 20,010 |
| | <u>812,921</u> | <u>8,477</u> | <u>821,398</u> |
| Total revenues | | | |
| | <u>812,921</u> | <u>8,477</u> | <u>821,398</u> |
| EXPENDITURES | | | |
| Legislative | 12,361 | - | 12,361 |
| General government | 397,607 | - | 397,607 |
| Public safety | 218,541 | - | 218,541 |
| Public works | 39,107 | - | 39,107 |
| Health and welfare | 11,651 | - | 11,651 |
| Community and economic development | 36,970 | - | 36,970 |
| Recreation and cultural | 46,000 | - | 46,000 |
| Capital outlay | 23,903 | - | 23,903 |
| | <u>786,140</u> | <u>-</u> | <u>786,140</u> |
| Total expenditures | | | |
| | <u>786,140</u> | <u>-</u> | <u>786,140</u> |
| NET CHANGE IN FUND BALANCES | 26,781 | 8,477 | 35,258 |
| FUND BALANCES - BEGINNING | <u>859,699</u> | <u>1,748,589</u> | <u>2,608,288</u> |
| FUND BALANCES - ENDING | <u>\$ 886,480</u> | <u>\$ 1,757,066</u> | <u>\$ 2,643,546</u> |

Net change in fund balances - total governmental funds (above) \$ 35,258

Amounts reported for *governmental activities* in the statement of activities (page 6) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$83,003) exceeded depreciation (\$11,474) in the current period.

71,529

Because some special assessments will not be collected until subsequent periods, they are not considered available revenues and are deferred in the governmental funds. Deferred special assessment revenues decreased by this amount in the current period.

(19,382)

Change in net assets of *governmental activities* \$ 87,405

See notes to financial statements

Township of Fabius

STATEMENT OF FIDUCIARY NET ASSETS - *agency funds*

March 31, 2005

ASSETS

| | |
|------|-----------------|
| Cash | \$ <u>4,857</u> |
|------|-----------------|

LIABILITIES

| | |
|----------|-----------------|
| Payables | \$ <u>4,857</u> |
|----------|-----------------|

See notes to financial statements

Township of Fabius
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Fabius, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) *Measurement focus, basis of accounting, and financial statement presentation* (continued):

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from state shared revenue and refuse royalties.

The Capital Improvement Fund accounts for the financial resources used for capital improvements within the Township. Revenues are primarily derived from investment income and contribution from the General Fund.

The Township reports a single fiduciary fund, Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

d) *Assets, liabilities, and net assets or equity:*

i) *Bank deposits* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is proportionately allocated to all funds.

ii) *Receivables* - No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) *Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

| | |
|----------------------------|---------------|
| Buildings and improvements | 15 - 40 years |
| Equipment | 5 years |
| Infrastructure | 20 years |

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets, liabilities, and net assets or equity* (continued):

iv) *Deferred revenue* - In the fund financial statements, governmental funds report deferred revenue in connection with resources for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

v) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. The Township considers property taxes levied December 1 to be revenue of the current year. The Township did not levy an operating tax during the fiscal year ending March 31, 2005.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

The following schedule sets forth significant budget variations:

| <u>Fund</u> | <u>Function</u> | <u>Activity</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------|------------------------|------------------|---------------|---------------|-----------------|
| General | General government | Supervisor | \$ 17,308 | \$ 26,323 | \$ (9,015) |
| | | Elections | 4,150 | 7,142 | (2,992) |
| | | Assessor | 161,000 | 166,607 | (5,607) |
| | | Clerk | 17,558 | 20,417 | (2,859) |
| | | Treasurer | 17,473 | 22,697 | (5,224) |
| | | Hall and grounds | 11,100 | 21,768 | (10,668) |
| | | Other | 91,845 | 129,855 | (38,010) |
| | Public safety | Fire protection | 87,000 | 94,950 | (7,950) |
| | | Inspections | 30,000 | 41,442 | (11,442) |
| | Recreation and culture | Library | 36,000 | 46,000 | (10,000) |
| | Capital outlay | Capital outlay | - | 23,903 | (23,903) |

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS:

The Township's cash and investments are as follows:

| | <u>Governmental activities</u> | <u>Fiduciary</u> | <u>Totals</u> |
|--------------|------------------------------------|------------------|---------------------|
| Cash | \$ 1,284,999 | \$ 4,857 | \$ 1,289,856 |
| Investments | 1,268,650 | - | 1,268,650 |
| Cash on hand | <u>50</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 2,553,699</u> | <u>\$ 4,857</u> | <u>\$ 2,558,506</u> |

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township. State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority. At March 31, 2005, the Township has deposits with a carrying amount of \$1,289,856 and a bank balance of \$1,295,110. Of the bank balance, \$660,000 is covered by federal depository insurance and \$635,110 is uninsured.

State statutes authorize the Township to invest in: a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, within three highest rate classifications by at least two national rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) investment pools, such as common trust funds and mutual funds that invest in those investments allowed by state statute. Not more than 50% of any fund may be invested in commercial paper.

The Township investments are categorized as follows to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured, registered, or for which the securities are held by the Township or its agent in the Township's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' trust department or agent in the Township's name.

| | <u>Face value</u> | <u>Category 1</u> | <u>Category 2</u> | <u>Totals</u> |
|----------------------------------|-----------------------|-----------------------|-----------------------|---------------------|
| Risk-categorized: | | | | |
| U.S. treasury bonds | \$ 50,000 | \$ - | \$ 45,665 | \$ 45,665 |
| Other U.S. government securities | <u>1,271,000</u> | <u>-</u> | <u>1,222,985</u> | <u>1,222,985</u> |
| | | <u>\$ -</u> | <u>\$ 1,268,650</u> | <u>\$ 1,268,650</u> |

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and nonmajor funds, in the aggregate, are as follows:

| <u>Fund</u> | <u>Accounts</u> | <u>Special assessments</u> | <u>Inter- governmental</u> | <u>Totals</u> |
|-------------|-----------------|--------------------------------|--------------------------------|---------------|
| General | \$ 101,767 | \$ 6,580 | \$ 68,774 | \$ 177,121 |

All receivables are considered fully collectible within one year.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended March 31, 2005, was as follows:

| | <u>Beginning balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated - land | \$ 1,000 | \$ - | \$ - | \$ 1,000 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 217,710 | 17,905 | - | 235,615 |
| Equipment | 16,028 | 5,998 | - | 22,026 |
| Infrastructure | - | 59,100 | - | 59,100 |
| Subtotal | 233,738 | 83,003 | - | 316,741 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (79,240) | (5,798) | - | (85,038) |
| Equipment | (8,625) | (3,340) | - | (11,965) |
| Infrastructure | - | (2,336) | - | (2,336) |
| Subtotal | (87,865) | (11,474) | - | (99,339) |
| Total capital assets being depreciated (net) | 145,873 | 71,529 | - | 217,402 |
| Governmental activities capital assets, net | \$ 146,873 | \$ 71,529 | \$ - | \$ 218,402 |

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to functions of the Township as follows:

| | |
|--------------------------|------------------|
| Governmental activities: | |
| General government | \$ 9,138 |
| Public safety | 2,280 |
| Public works | <u>56</u> |
| | <u>\$ 11,474</u> |

NOTE 6 - PAYABLES:

| <u>Fund</u> | <u>Accounts</u> | <u>Inter- governmental</u> | <u>Total</u> |
|-------------|-----------------|--------------------------------|------------------|
| General | \$ 11,036 | \$ 69,658 | <u>\$ 80,694</u> |

NOTE 7 - DEFERRED REVENUE:

As of March 31, 2005, deferred revenue consists of road special assessments unavailable to liquidate liabilities in the current period.

NOTE 8 – ROYALTY AGREEMENT:

The Township has a contractual agreement with a waste management company to receive a fee based upon usage at the site until the facility closes. The fee is based on the rate of 33 cents per yard. The facility has no immediate plan for closure as of March 31, 2005.

NOTE 9 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended March 31, 2005, is as follows:

| | |
|----------------------------------|-----------------|
| Revenues | \$ 54,546 |
| Expenses | <u>(44,667)</u> |
| Excess of revenues over expenses | <u>\$ 9,879</u> |

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - JOINT VENTURE:

Lockport, Fabius, Park Township Fire Association:

The Township is a member of the Lockport, Fabius, Park Township Fire Association (the Association), which is a joint venture of the Townships of Lockport, Fabius, and Park. The administrative board of the Association consists of members appointed by each participating unit and a member at-large. The Association was formed to jointly provide fire protection services within the combined service area, which encompasses the participating municipalities. During the year ended March 31, 2005, the Township of Fabius contributed \$94,950 as its proportionate share of the Association's budgeted costs. A portion of the Township's contribution was for vehicles and additional insurance costs during the year ended March 31, 2005. Complete audited financial statements for the Association can be obtained from the Treasurer of the Township of Lockport.

NOTE 11 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 12 - DEFINED CONTRIBUTION PENSION PLAN:

The Township provides pension benefits for substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan State Statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. Employees are eligible to participate from the date of employment. The Township annually contributes 25% of the participant's base salary and participants are immediately 100% vested. The Township made the required contributions of \$13,474. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

NOTE 13 - RELATED PARTY TRANSACTIONS:

The Township entered into a contract for the Township Hall lawn maintenance and snow removal with Versal Farms, which is owned by Vernon Lanphear, the supervisor of the Township. The amount paid for the year ended March 31, 2005, was \$3,300.

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 14 - PRIOR PERIOD ADJUSTMENTS:

Prior period adjustments have been recorded in 2005 that resulted in fund balance restatements. Fund equity as of April 1, 2004, included in the financial statements, represents restated balances as presented below. The following schedule identifies the nature and amount of the adjustments recorded.

General Fund:

| | |
|---|-------------------|
| Beginning of year, as previously reported | \$ 847,876 |
| Prior period adjustments: | |
| Overstatement of amounts due from other funds | (3,607) |
| Overstatement of accounts payable | <u>15,430</u> |
| Beginning of year, as restated | <u>\$ 859,699</u> |

NOTE 15 - CHANGE IN ACCOUNTING PRINCIPLES:

Effective April 1, 2004, the Township implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, along with all related statements and interpretations. In connection with the implementation of this statement, the following adjustments to beginning net assets have been made to reflect the cumulative effect of this accounting change:

| | |
|--|---------------------|
| Net assets as previously reported: | \$ 2,608,288 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 146,873 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | <u>25,962</u> |
| Net assets, as restated | <u>\$ 2,781,123</u> |

REQUIRED SUPPLEMENTARY INFORMATION

Township of Fabius**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended March 31, 2005

| | <u>Original budget</u> | <u>Amended budget</u> | <u>Actual</u> | <u>Variance favorable (unfavorable)</u> |
|----------------------------------|----------------------------|---------------------------|----------------|---|
| REVENUES | | | | |
| Taxes | \$ 1,161 | \$ 1,161 | \$ 2,136 | \$ 975 |
| Licenses and permits | 27,000 | 27,000 | 54,585 | 27,585 |
| State grants | 222,252 | 222,252 | 227,728 | 5,476 |
| Charges for services | 6,000 | 6,000 | 66,398 | 60,398 |
| Interest, rentals, and royalties | 492,204 | 492,204 | 442,064 | (50,140) |
| Other | 40,000 | 40,000 | 20,010 | (19,990) |
| Total revenues | <u>788,617</u> | <u>788,617</u> | <u>812,921</u> | <u>24,304</u> |
| EXPENDITURES | | | | |
| Legislative | <u>11,096</u> | <u>11,096</u> | <u>12,361</u> | <u>(1,265)</u> |
| General government: | | | | |
| Supervisor | 17,308 | 17,308 | 26,323 | (9,015) |
| Election | 4,150 | 4,150 | 7,142 | (2,992) |
| Assessor | 161,000 | 161,000 | 166,607 | (5,607) |
| Clerk | 17,558 | 17,558 | 20,417 | (2,859) |
| Board of review | 1,200 | 1,200 | 600 | 600 |
| Treasurer | 17,473 | 17,473 | 22,697 | (5,224) |
| Hall and grounds | 11,100 | 11,100 | 21,768 | (10,668) |
| Cemetery | 2,500 | 2,500 | 2,198 | 302 |
| Other | 91,845 | 91,845 | 129,855 | (38,010) |
| Total general government | <u>324,134</u> | <u>324,134</u> | <u>397,607</u> | <u>(73,473)</u> |
| Public safety: | | | | |
| Law enforcement | 89,650 | 89,650 | 82,149 | 7,501 |
| Fire protection | 87,000 | 87,000 | 94,950 | (7,950) |
| Inspections | 30,000 | 30,000 | 41,442 | (11,442) |
| Total public safety | <u>206,650</u> | <u>206,650</u> | <u>218,541</u> | <u>(11,891)</u> |
| Public works: | | | | |
| Road maintenance | 100,000 | 100,000 | 36,966 | 63,034 |
| Soil conservation - wetlands | 3,500 | 3,500 | 2,141 | 1,359 |
| Total public works | <u>103,500</u> | <u>103,500</u> | <u>39,107</u> | <u>64,393</u> |

Township of Fabius**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended March 31, 2005

| | <u>Original budget</u> | <u>Amended budget</u> | <u>Actual</u> | <u>Variance favorable (unfavorable)</u> |
|---|----------------------------|---------------------------|-------------------|---|
| EXPENDITURES (Continued) | | | | |
| Health and welfare - ambulance service | \$ 12,000 | \$ 12,000 | \$ 11,651 | \$ 349 |
| Community and economic development - planning and zoning | 49,500 | 49,500 | 36,970 | 12,530 |
| Recreation and cultural - library | 36,000 | 36,000 | 46,000 | (10,000) |
| Capital outlay | - | - | 23,903 | (23,903) |
| Total expenditures | 742,880 | 742,880 | 786,140 | (43,260) |
| NET CHANGE IN FUND BALANCES | 45,737 | 45,737 | 26,781 | (18,956) |
| FUND BALANCES - BEGINNING | 859,699 | 859,699 | 859,699 | - |
| FUND BALANCES - ENDING | <u>\$ 905,436</u> | <u>\$ 905,436</u> | <u>\$ 886,480</u> | <u>\$ (18,956)</u> |

Township of Fabius

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - Sewer Capital Improvement Fund**

Year ended March 31, 2005

| | <u><i>Original budget</i></u> | <u><i>Amended budget</i></u> | <u><i>Actual</i></u> | <u><i>Variance favorable (unfavorable)</i></u> |
|---------------------------------|-----------------------------------|----------------------------------|----------------------|--|
| REVENUES | | | | |
| Interest | \$ - | \$ - | \$ 8,477 | \$ 8,477 |
| FUND BALANCE - BEGINNING | <u>1,748,589</u> | <u>1,748,589</u> | <u>1,748,589</u> | <u>-</u> |
| FUND BALANCE - ENDING | <u>\$1,748,589</u> | <u>\$ 1,748,589</u> | <u>\$ 1,748,589</u> | <u>\$ -</u> |

**Board of Trustees
Township of Fabius, Michigan**

In planning and performing our audit of the basic financial statements of the Township of Fabius, Michigan, for the year ended March 31, 2005, we considered its internal control in order to determine our audit procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

The following are reportable conditions that were noted during the audit:

- The Township's accounting records included numerous recording and classification errors that were not corrected in a timely manner.
- The financial activity of the cash and investment accounts owned by the Township were not completely reflected in the accounting records.
- The financial activity of the trust and agency accounts (Tax, Trailer, and Walnut Drive Maintenance) was recorded in the Township's General Fund.
- The financial activity of the Capital Improvement Fund was recorded in the Township's General Fund.
- Payroll checks were not entered into the appropriate accounting software at the time the check was issued, which caused inconsistencies between payroll liabilities and the net check amount.
- The Employer's Quarterly Federal Tax Returns - Form 941's- do not agree with the financial records of the Township.
- Certain wages or per diem pay earned by individuals employed by the Township, whether elected or appointed, were not subject to payroll taxes (Federal, Social Security, and Medicare) as required by law.
- Certain payroll checks were overwritten within the accounting software and the employee's Social Security and Medicare withholdings were removed or modified.

**Board of Trustees
Township of Fabius, Michigan**

- **A personnel policy has not been instituted to document policies regarding extra pay, per diem, and reimbursable expenses.**
- **Documentation for certain employee reimbursements was not obtained prior to payment.**
- **A credit card policy has not been instituted to document the appropriate use for credit cards.**
- **Documentation for certain purchases on credit cards was not remitted to the Township to substantiate payment of credit card balances.**
- **The Township expended more than the amount budgeted in numerous activity areas and failed to amend the budget as needed.**
- **The Township did not publicly approve the annual budget for the fiscal year ending March 31, 2006, prior to the start of the new fiscal year.**

This report is intended solely for the information and use of the Township Board, management, and the Michigan Department of Treasury and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.

October 5, 2005